

Message Text

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ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 NSCE-00 NIC-01 SAJ-01 IO-14

AGR-20 AID-20 CIAE-00 COME-00 EB-11 FRB-03 INR-11

NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03 CIEP-03

LAB-06 SIL-01 OMB-01 DODE-00 PM-07 H-03 L-03 NSC-07

PA-04 PRS-01 SS-20 USIA-15 STR-08 DRC-01 CEA-02 /226 W

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FM USLO PEKING

TO SECSTATE WASHDC 2358

INFO AMEMBASSY BONN

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: ETRD CH

SUBJECT: MORE PRC PLANT PURCHASES BUT APPARENT DECLINE
IN NEGOTIATIONS FOR FURTHER PURCHASES

1. IN CONVERSATIONS WITH DIPLOMATIC COLLEAGUES IN PEKING, USLO OFFICERS HAVE LEARNED OF THREE RECENT PRC PURCHASES OF COMPLETE INDUSTRIAL PLANTS WORTH APPROXIMATELY DOLS 85 MILLION. THESE CONTRACTS RAISE TOTAL CHINESE PURCHASES THIS YEAR TO 20 PLANTS WORTH AN ESTIMATED DOLS 770 MILLION. AT THE SAME TIME, THERE CONTINUES TO BE -- AS HAS BEEN THE CASE ALL SUMMER -- LITTLE ACTIVITY RESPECTING NEGOTIATIONS FOR NEW PLANT PURCHASES.

2. THE WEST GERMAN CONSORTIUM OF DEMAG SCHOLEMANN-SIEMAG, SIGNED A CONTRACT ON AUGUST 31 FOR THE SALE OF A CONTINUOUS CASTING PLANT WORTH ABOUT DOLS 57 MILLION (DM 150 MILLION).

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THE NEW PLANT WILL BE LOCATED IN WUHAN AT THE SITE OF

A COLD PROCESS STEEL ROLLING MILL WHICH THE CONSORTIUM SOLD TO CHINA IN MARCH OF THIS YEAR (HONG KONG 3627). ACCORDING TO THE WEST GERMAN EMBASSY COMMERCIAL COUNSELOR, NEGOTIATIONS FOR THE PLANT WERE COMPLETED IN MARCH, BUT FOR SOME REASON THE CHINESE DELAYED MAKING A FINAL DECISION UNTIL AUGUST. IN THE INTERIM THE PRICE OF THE PLANT INCREASED BY EIGHT PERCENT. CONTRACT TERMS CALL FOR A DOWN PAYMENT, SUBSEQUENT PAYMENTS AS EQUIPMENT IS DELIVERED, AND A FINAL PAYMENT (10 PERCENT) WHEN THE PLANT IS IN OPERATION.

3. IN ADDITION TO THE CASTING PLANT, THE FRG COMMERCIAL COUNSELOR CONFIRMED THAT THE FREDERICH UHDE COMPANY SOLD A VINYL CHLORIDE PLANT WORTH ABOUT DOLS 19 MILLION TO THE PRC IN JUNE. THIS IS THE THIRD PLANT WHICH THE WEST GERMAN FIRM HAS SOLD TO CHINA IN THE LAST TWO YEARS.

4. WE HAVE ALSO LEARNED OF THE SALE TO CHINA IN JUNE BY THE FRENCH FIRM RHONE POULENC TEXTILE OF A NYLON SPINNING PLANT VALUED AT DOLS 10.4 MILLION (50 MILLION FRF). THE PLANT WILL BE LOCATED IN NORTHEAST CHINA WITH CONSTRUCTION SCHEDULED TO BEGIN IN 1977.

5. WHILE PRC COMPLETE PLANT PURCHASES HAVE CONTINUED AT A LEVEL SIMILAR TO THAT OF LAST YEAR, THERE CONTINUES TO BE A GENERAL FEELING AMONG PEKING COMMERCIAL OFFICERS THAT THIS SUMMER HAS WITNESSED AN OVERALL DECLINE IN THE NUMBER OF POSSIBLE PLANT SALE UNDER DISCUSSION. CHINESE PURCHASES THIS YEAR HAVE ALL RESULTED FROM TALKS WHICH BEGAN IN 1972-73 OR EVEN EARLIER. UNLIKE LAST YEAR, WHEN THERE WAS A STEADY FLOW OF PLANT NEGOTIATING MISSIONS TO PEKING, OUR COLLEAGUES REPORT ALMOST NO ACTIVITY AT PRESENT. (ONE EXCEPTION IS CURRENT JAPANESE TALKS FOR THE SALE OF ADDITIONAL FACILITIES FOR THE JAPANESE STEEL MILL - TOKYO 1107). CERTAINLY, THERE HAS NOT BEEN A GREAT DEAL OF PROGRESS WITH US FIRMS WHICH SUBMITTED PROPOSALS OR HAD INITIAL TALKS ON WHOLE PLANTS WITH THE CHINESE LAST YEAR.

6. PEKING DIPLOMATIC OBSERVERS REMAIN UNCERTAIN ABOUT LIMITED OFFICIAL USE

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THE REASONS FOR THE DROP OFF IN NEW PLANT NEGOTIATIONS. THEY POINT TO CONTINUING CRITICISM OF OVER-RELIANCE ON IMPORTS, INTERNATIONAL INFLATION, A PRESUMED 1974 TRADE DEFICIT, SHORTAGE OF CHINESE TECHNICIANS, AND THE APPROACHING END OF THE CURRENT FIVE YEAR PLAN AS POSSIBLE EXPLANATIONS. WE SHARE THIS UNCERTAINTY AND THINK THAT VARIOUS FACTORS MAY BE AT PLAY. NEVERTHELESS, WE ARE NOW INCLINED TO GIVE MORE WEIGHT THAN WE DID BEFORE TO THE

CAMPAIGN CRITICIZING IMPORTS WHICH MAY HAVE CAUSED
CHINESE ECONOMIC OFFICIALS TO HOLD OFF ON MAJOR NEW
INITIATIVES.
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